

# TATA MOTORS



Q1FY10 consolidated results – losses continue

## ■ Consolidated loss at INR 9.8 bn; below expectations

Adjusting for forex and exceptional items, Tata Motors (TTMT) reported a consolidated Q1FY10 loss of INR 9.8 bn (subsidiaries, including JLR, posted loss of ~INR 12 bn). The stated pre-exceptional PAT loss at JLR was INR 10.2 bn.

## ■ Cost cutting continues at JLR; profitability still seems faraway

The management stated that it had partially succeeded in reducing costs at JLR. It indicated that pre-exceptional losses at JLR had been halved on a sequential basis (to GBP 129 mn), largely on account of reduction in fixed marketing expenses. The company has aggressive cost cutting targets, including reduction in headcount by 20% in the near-to-medium term.

On the positive side, JLRs retail volumes remained flat on a sequential basis, while wholesale units showed positive growth with a marked reduction in inventory levels. Nonetheless, given the extent of losses, profitability seems to be at least two years away with the environment still challenging.

## ■ Debt-to-equity remains high; capital raising could ease pressure

TTMT has a consolidated debt of INR 340 bn, of which, nearly INR 76 bn is being utilised for the vehicle financing business. JLR had raised an incremental external debt of GBP 100 mn during the quarter and expects to gain access to the EIB loan of GBP 340 mn shortly.

However, given the financial stress, the company would be looking to raise equity. It indicated that it needs USD 850 mn to repay its short-term commitments by December 2010. If the company raises the amount through an equity issue, the D/E (excluding vehicle financing business) could decline to ~ 2:1 from 4:1.

## ■ Outlook and valuations: structural issues persist; maintain 'HOLD'

TTMT continues to face structural issues, though the incremental news flow seems to be positive. Positive factors include: (a) continuous improvement in the commercial vehicle cycle; (b) potential benefits from cost cutting measures, leading to reduction in losses from JLR; and (c) equity raising that could lead to dilution, but a more manageable D/E. However, given high risks and long drawn out recovery, we maintain our '**HOLD**' recommendation on the stock. On a relative basis we rate the stock a '**Sector Underperformer**'.

August 31, 2009

Reuters : TAMO.BO Bloomberg : TTMT IN

### EDELWEISS 4D RATINGS

Absolute Rating	<b>HOLD</b>
Rating Relative to Sector	<b>Underperformer</b>
Risk Rating Relative to Sector	<b>High</b>
Sector Relative to Market	<b>Underweight</b>

Note:  
Please refer last page of the report for rating explanation

### MARKET DATA

CMP	:	INR 489
52-week range (INR)	:	505 / 122
Share in issue (mn)	:	514.0
M cap (INR bn/USD mn)	:	251.3/5,161.1
Avg. Daily Vol. BSE ('000)	:	4,994.1

### SHARE HOLDING PATTERN (%)

Promoters*	:	46.7
MFs, FIs & Banks	:	17.3
FIIIs	:	7.6
Others	:	28.3
* Promoters pledged shares (% of share in issue)	:	10.5

### RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(1.6)	24.4	26.0
3 months	5.6	45.4	39.9
12 months	8.1	21.1	13.0

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### Financials

Year to March	FY08	FY09	FY10E	FY11E
Revenues (INR mn)	285,314	254,712	284,545	344,245
Rev. growth (%)	4.0	(10.7)	11.7	21.0
EBITDA (INR mn)	27,553	15,629	29,977	35,114
Net profit (INR mn)	20,289	10,013	12,534	11,599
Basic shares outstanding (mn)	386	514	514	514
Diluted EPS - (INR)	37.2	6.4	16.8	20.8
EPS growth (%)	(16.7)	(82.8)	162.3	24.0
Diluted P/E - (x)	11.4	65.9	25.1	20.3
EV/EBITDA (x)	5.5	15.8	7.9	6.3
ROACE (%)	21.0	4.7	10.2	12.5
ROAE (%)	21.7	3.5	7.2	8.4

- **Non JLR subsidiaries perform poorly**

The top 6 non JLR subsidiaries showed a Y-o-Y decline with TMFL reporting a loss of INR 370m despite a net interest margin of 6.6% (indicating high NPA's) Amongst the other subsidiaries, Tata Daewoo showed a smart 58% pickup in volumes on a sequential basis while TELCON's business remained poor.

**Table 1: Tata Motors - Poor subsidiary performance**

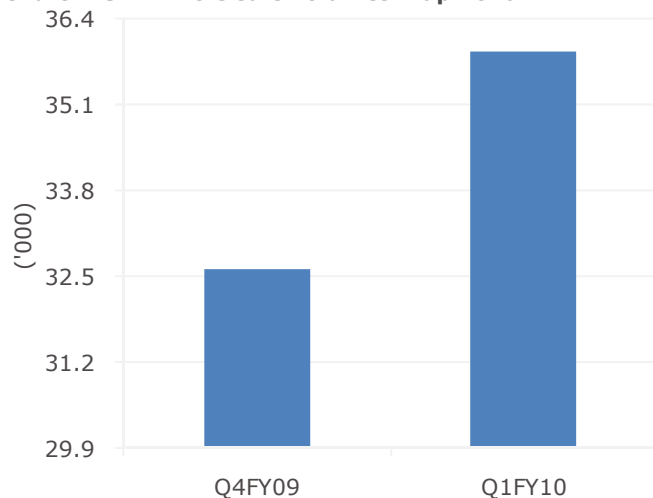
(INR mn)	Revenues			PAT		
	Q1FY09	Q1FY10	% change	Q1FY09	Q1FY10	% change
Tata Daewoo	8,100	6,670	(17.7)	460	180	(60.9)
Telcon	5,780	3,900	(32.5)	679	(4)	(100.6)
Tata Technologies	2,770	2,460	(11.2)	99	48	(51.5)
Tata Motor Finance	1,850	2,140	15.7	(90)	(370)	311.1
HVAL	480	390	(18.8)	110	70	(36.4)
HVTL	520	440	(15.4)	130	100	(23.1)

Source: Company, Edelweiss research

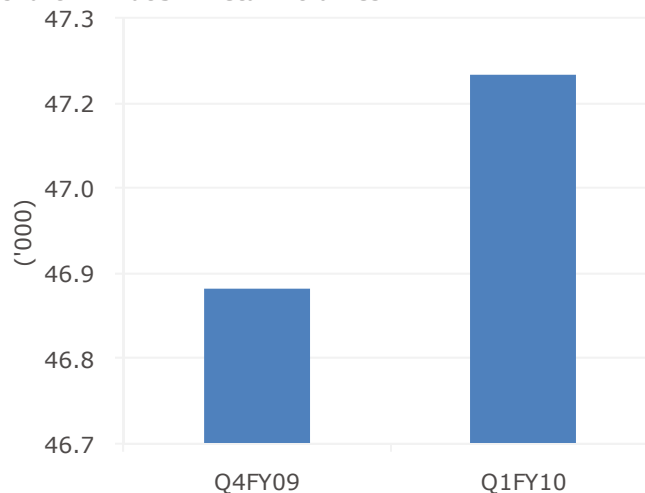
- **JLR's volumes picked up**

JLR wholesale volumes improved a sequential basis by over 10%, while retail volumes remained flat. While North America and Europe (excluding Russia) showed a growth; the UK and Russian markets performed poorly. On a yearly basis retail volumes were down 35% Y-o-Y while wholesale volumes declined by 52% Y-o-Y. Over the past two quarters the company has substantially cleared dealer inventory and expects a convergence in wholesale and retail volumes in Q3FY10.

**Chart 1: JLR whole sale volumes – up 10%**



**Chart 2: Flat JLR retail volumes**



Source: Company, Edelweiss research

**Table 2: Q1FY10 consolidated results - disappointing**

Year to March	Q110	Q109	% change
Gross sales	168,462	154,203	9.2
Less:excise	5,566	10,061	(44.7)
Net revenues	162,896	144,142	13.0
Other operating income	1,074	760	41.4
<b>Total Income from operations</b>	<b>163,970</b>	<b>144,902</b>	<b>13.2</b>
Dec/(Inc) in stock	(3,301)	(7,109)	(53.6)
Raw materials consumed	115,898	104,588	10.8
Staff cost	20,437	12,433	64.4
Other expenditure	36,628	25,211	45.3
Less: Expenses capitalised	(11,652)	(7,195)	62.0
<b>Total expenditure</b>	<b>158,011</b>	<b>127,927</b>	<b>23.5</b>
<b>EBITDA</b>	<b>5,959</b>	<b>16,974</b>	<b>(64.9)</b>
Other income (Excluding forex gain)	22	80	(72.8)
Interest	5,835	3,244	79.9
Depreciation	8,442	3,591	135.1
Product development expenses	930	141	559.3
Provisions/employee seperation cost			
<b>Profit before tax</b>	<b>(9,227)</b>	<b>10,079</b>	<b>(191.5)</b>
Tax	643	1,124	(42.8)
Minority/ Associates	53	(231)	
<b>Adj. Net profit</b>	<b>(9,816)</b>	<b>8,724</b>	<b>(212.5)</b>
Exchange gain/(loss) on forex loans	3,339	(3,952)	(184.5)
Extraordinary items	3,189	2,425	31.5
<b>Net profit</b>	<b>(3,288)</b>	<b>7,197</b>	<b>(145.7)</b>
<b>% of net sales</b>			
Raw material	68.7	67.3	
Staff cost	12.5	8.6	
Other expenditure	22.3	17.4	
EBITDA	3.6	11.7	
Net profit	(6.0)	6.0	
Tax rate	(7.0)	11.1	

Source: Company, Edelweiss research

- **Company Description**

TTMT is India's largest automobile company with a presence in commercial and passenger vehicles. It is the leader in nearly all commercial vehicle segments and the second largest in the passenger vehicles market, with products in the compact and midsize car, and utility vehicle segments. The company is world's fifth largest medium and heavy commercial vehicle manufacturer. It has plants in Jamshedpur, Pune, Lucknow and Dharwad, and had acquired Jaguar Land Rover from Ford Motors in June 2008.

- **Investment Theme**

TTMT's domestic business after a slump in H2FY09 has seen a significant improvement in its sales. CV cycle has seen its bottom and is on one a verge of a turnaround. LCV segment, where the company is a dominant player has seen robust volumes in recent times. And passenger vehicle business is expected to show moderate growth on the back of new product launches. The company's margins in recent times have been boosted by change in product mix towards higher margin products, lower input costs and aggressive cost cutting exercise. While domestic business is set to show a substantial recovery by FY11, JLR is expected to turnaround in FY12.

- **Key Risks**

Though the domestic CV industry has shown a gradual improvement in sales, any delay in a total turnaround (expected in FY11) can impact standalone earnings. Operating margins from the newly launched Nano can be impacted by any upward change in excise duty on small cars. Finally, a prolonged delay in the recovery of the western economies can significantly impact JLR turnaround.

## Financial Statements

<b>Income statement</b>					<b>(INR mn)</b>
Year to March	FY07	FY08	FY09	FY10E	FY11E
Total volume (nos)	578,805	582,402	497,689	529,087	593,392
% Growth	27.4	0.6	(14.5)	6.3	12.2
Income from operations	274,221	285,314	254,712	284,545	344,245
Materials costs	191,012	202,232	186,370	197,475	243,115
Manufacturing expenses	22,381	25,468	22,648	25,090	28,674
Staff costs	13,681	15,446	15,514	16,539	19,682
S G & A expenses	20,908	25,929	23,712	26,071	30,540
Less:Expenses capitalised	5,771	11,314	9,160	10,607	12,880
Total operating expenses	242,211	257,761	239,084	254,568	309,131
EBITDA	32,010	27,553	15,629	29,977	35,114
Depreciation and amortisation	6,713	7,167	9,257	12,465	14,018
Provisions	11	0	0	0	0
EBIT	25,286	20,387	6,372	17,512	21,096
Interest	3,685	4,256	8,045	11,442	11,899
Non-Operational Income	3,006	4,877	5,365	5,172	6,065
Profit before tax	24,607	21,007	3,692	11,242	15,262
Provision for tax	6,434	5,092	125	1,888	3,663
Current taxes	4,662	1,077	125	1,888	3,663
Deferred taxes	1,772	4,015	0	0	0
Core profit	18,173	15,915	3,567	9,354	11,599
Extraordinary income/ (loss)	966	4,374	6,446	3,180	0
Profit After Tax	19,139	20,289	10,013	12,534	11,599
Profit after minority interest	19,139	20,289	10,013	12,534	11,599
Consolidated PAT	21,384	19,990	4,246	11,270	0
Shares outstanding	385	386	514	514	514
Earnings per share (EPS)	47.2	41.3	6.9	18.2	22.6
Diluted shares outstanding	407.2	428.1	556.7	556.7	556.7
Diluted EPS	44.6	37.2	6.4	16.8	20.8
Cash EPS	69.2	70.3	24.9	42.4	49.8
Dividend per share	15.0	15.0	6.0	6.0	10.0
Dividend payout (%)	35.3	32.5	36.0	28.8	51.9

### Common size metrics- as % of net revenues

Year to March	FY07	FY08	FY09	FY10E	FY11E
Operating expenses	88.3	90.3	93.9	89.5	89.8
Materials costs	69.7	70.9	73.2	69.4	70.6
Staff costs	5.0	5.4	6.1	5.8	5.7
S G & A expenses	7.6	9.1	9.3	9.2	8.9
Depreciation	2.4	2.5	3.6	4.4	4.1
Interest expenditure	1.3	1.5	3.2	4.0	3.5
EBITDA margins	11.7	9.7	6.1	10.5	10.2
Net profit margins	6.6	5.6	1.4	3.3	3.4

### Growth metrics (%)

Year to March	FY07	FY08	FY09	FY10E	FY11E
Revenues	33.1	4.0	(10.7)	11.7	21.0
EBITDA	24.1	(13.9)	(43.3)	91.8	17.1
PBT	30.0	(14.6)	(82.4)	204.5	35.8
Net profit	31.0	(12.4)	(77.6)	162.3	24.0
EPS	31.0	(16.7)	(82.8)	162.3	24.0

## Automobiles

<b>Balance sheet</b>	<b>(INR mn)</b>				
As on 31st March	FY07	FY08	FY09E	FY10E	FY11E
Equity capital	3,854	3,855	5,141	5,141	5,141
Reserves & surplus	64,843	74,540	121,104	130,030	135,614
Shareholders funds	68,698	78,395	126,245	135,170	140,755
Secured loans	20,220	24,620	24,620	24,620	24,620
Unsecured loans	19,871	38,185	110,912	144,970	132,549
Borrowings	40,091	62,805	135,532	169,589	157,169
Deferred tax (Net)	7,868	9,757	9,757	9,757	9,757
Deferred Tax liability	7,868	9,757	9,757	9,757	9,757
<b>Sources of funds</b>	<b>116,657</b>	<b>150,957</b>	<b>271,534</b>	<b>314,517</b>	<b>307,681</b>
Gross block	87,758	108,308	169,897	218,928	263,890
Depreciation	48,945	54,435	63,181	74,845	87,863
Net block	38,813	53,873	106,717	144,082	176,027
Capital work in progress	25,133	50,650	38,650	18,650	8,650
Investments	24,770	49,103	100,903	142,903	142,903
Inventories	25,010	24,218	39,298	30,721	28,820
Sundry debtors	7,822	11,307	11,720	11,520	12,086
Cash and bank balance	8,268	23,973	5,094	7,114	8,606
Loans and advances	63,962	44,331	64,623	59,823	27,023
Other current assets	59	9	9	9	9
Total current assets	105,121	103,838	120,744	109,186	76,544
Sundry creditors	60,837	83,917	75,838	80,643	74,375
Others current liabilities	2,799	2,755	2,755	2,755	2,755
Provisions	13,643	19,894	16,906	16,906	19,312
Total current liab. & provisions	77,280	106,566	95,499	100,304	96,442
Net current assets	27,841	(2,729)	25,245	8,882	(19,898)
Misc expenditure	101	61	20	0	0
<b>Uses of funds</b>	<b>116,657</b>	<b>150,957</b>	<b>271,534</b>	<b>314,517</b>	<b>307,681</b>
Book value per share (BV) (INR)	178	203	246	263	274

### Free cash flow

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Net profit	19,139	20,289	10,013	12,534	11,599
Add: non-cash charge:					
Depreciation	5,863	6,523	8,745	11,665	13,018
Deferred tax	1,772	4,015	0	0	0
Others	(2,740)	(8,390)	(6,446)	0	0
Gross cash flow	24,033	22,438	12,312	24,199	24,617
Less: Changes in WC	5,267	(46,315)	46,811	(18,402)	(30,273)
Operating cash flow	18,766	68,753	(34,499)	42,600	54,890
Less: Capex	24,596	47,100	49,589	29,030	34,963
<b>Free Cash Flow</b>	<b>(5,831)</b>	<b>21,653</b>	<b>(84,088)</b>	<b>13,570</b>	<b>19,927</b>

### Cash Flow Metrics

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Operating cash flow	18,766	68,753	(34,499)	42,600	54,890
Financing cash flow	7,206	15,387	110,564	30,449	(18,435)
Investing cash flow	(28,899)	(68,434)	(94,943)	(67,850)	(34,963)
<b>Net Cash Flow</b>	<b>(2,927)</b>	<b>15,706</b>	<b>(18,879)</b>	<b>5,199</b>	<b>1,492</b>
Capex	(24,596)	(47,100)	(49,589)	(29,030)	(34,963)
Dividend paid	(5,678)	(6,764)	(6,596)	(3,609)	(3,609)
Share issuance/(buyback)	25	1	1,285	0	0

**Profitability & liquidity ratios**

Year to March	FY07	FY08	FY09E	FY10E	FY11E
ROAE (%)	29.4	21.7	3.5	7.2	8.4
ROACE (%)	31.1	21.0	4.7	10.2	12.5
Inventory days	39	39	55	57	40
Debtors days	10	12	16	15	13
Payable days	99	116	139	128	104
Cash conversion cycle (days)	(51)	(64)	(68)	(56)	(52)
Current ratio	1.4	1.0	1.3	1.1	0.8
Debt/EBITDA	1.3	2.3	8.7	5.7	4.5
Fixed asset turnover (x)	7.4	6.2	3.2	2.3	2.2
Debt/Equity	0.6	0.8	1.1	1.3	1.1
Adjusted debt/equity	0.6	0.8	1.1	1.3	1.1

**Operating ratios**

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Total asset turnover	2.6	2.1	1.2	1.0	1.1
Fixed asset turnover	7.4	6.2	3.2	2.3	2.2
Equity turnover	4.4	3.9	2.5	2.2	2.5

**Du Pont Analysis**

Year to March	FY07	FY08	FY09E	FY10E	FY11E
NP Margin %	6.6	5.6	1.4	3.3	3.4
Total Assets Turnover	2.6	2.1	1.2	1.0	1.1
Leverage multiplier	1.7	1.8	2.1	2.2	2.3
ROAE %	29.4	21.7	3.5	7.2	8.4

**Valuation parameters**

Year to March	FY07	FY08	FY09E	FY10E	FY11E
EPS (INR)	44.6	37.2	6.4	16.8	20.8
YoY growth (%)	31.0	(16.7)	(82.8)	162.3	24.0
Diluted EPS (INR)	44.6	37.2	6.4	16.8	20.8
CEPS (INR)	69.2	70.3	24.9	42.4	49.8
Diluted PE (x)	9.5	11.4	65.9	25.1	20.3
Diluted Consolidated PE (x)	9.5	11.4	65.9	25.1	20.3
Price/BV (x)	2.4	2.1	1.7	1.6	1.5
EV/Sales (x)	0.6	0.5	1.0	0.8	0.6
EV/EBITDA (x)	5.3	5.5	15.8	7.9	6.3
Dividend yield %	3.6	3.6	1.4	1.4	2.4



## RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk
Hero Honda Motors	Buy	SO	L
Bajaj Auto	Hold	SO	H
Maruti Suzuki India	Hold	SP	L
Ashok Leyland	Reduce	SU	M
Tata Motors	Hold	SU	H

### ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

### RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

### RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

### SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Ideas create, values protect





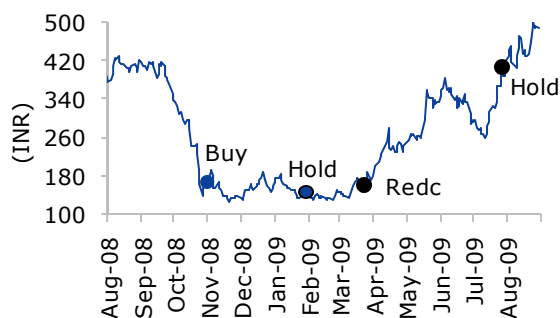
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### Coverage group(s) of stocks by primary analyst(s): Auto & Auto Components

**Auto:** Ashok Leyland, Tata Motors, Bajaj Auto Ltd, Maruti Udyog, Mahindra & Mahindra, Hero Honda Motors, TVS Motor

**Tata Motors**



**Recent Research**

Date	Company	Title	Price (INR)	Recons
03-Aug-09	<b>Auto</b>	Sales Update		
29-Jul-09	<b>Hero Honda</b>	Splendorous performance; Result Update	1,640	Buy
28-Jul-09	<b>Ashok Leyland</b>	margins nosedive; Result Update	36	Reduce
28-Jul-09	<b>Tata Motors</b>	Incremental positives Result Update	414	Hold

### Distribution of Ratings / Market Cap

#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	53	43	29	128

\* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	72	41	15

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